Mera Petroleums Inc.

1994 Annual Report

Mera Petroleums Inc. is:

- *An oil and gas development company based in Calgary, Alberta*
- *Listed on the Alberta Stock Exchange under the symbol **MPR***
- *Building a solid production base by purchasing properties with a long life and reasonable cash flow*
- *Working towards a ratio of 60% gas and 40% oil by developing new and existing gas prospects*
- *Achieving its objectives, while remaining debt free.*

Corporate Credo

"The Secret to Successful Long-Term Gain in the Oil and Gas Industry is simple.

Choose reachable Goals.

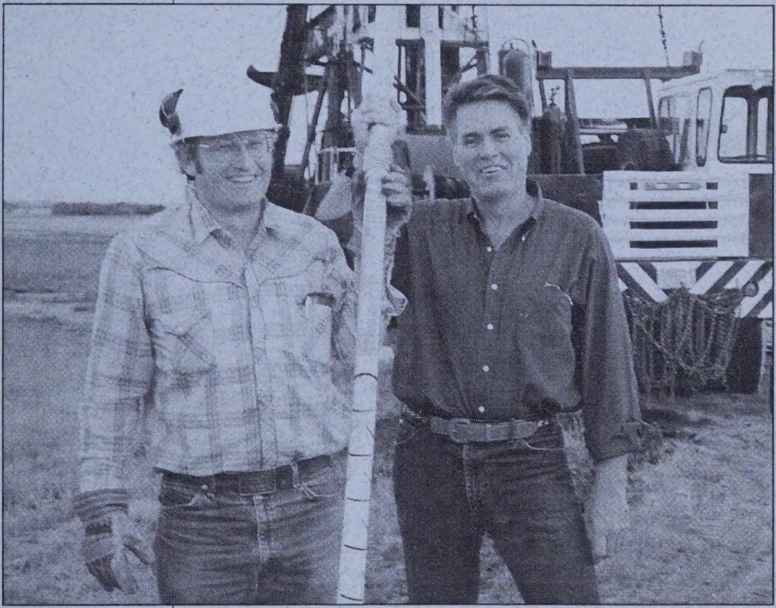
Achieve Peak Performance."

Glossary

WI - Working interest
BOPD – Barrels of oil per day
BOEPD – Barrels of oil equivalent per day
GORR – Gross overriding royalty
MCF/D – thousand cubic feet per day

Report To Shareholders

Nineteen ninety-four was a year of dramatic transition for your company. Mera Petroleums Inc. graduated from the status of a Junior Capital Pool to that of a regularly listed stock on the Alberta Stock Exchange. Shareholders overwhelmingly approved the major transaction at a Special General meeting held April 7, 1994.



Your President, Bob McLeay (on right) at the Calmar site. The success of our Calmar workover was publicized in an APEGGA THE PEGG article February, 1995.

Four of Mera's wells were reworked with a 50% success rate, an industry average. Our Calmar 13-35 well — a candidate for abandonment when production dropped to 2 BOPD — is producing 5 to 6 BOPD following a rework utilizing a new ultrasonic downhole tool. The same tool turned our non-producing Sylvan Lake 15-23 into a well capable of producing 300 MCF/D of gas, plus 8 BOPD of natural gas liquids. Calmar 8-31 did not respond to the ultrasonic tool workover, so production remained unchanged at 6 BOPD. A frac attempt at our 6-23 Sylvan Lake well proved unsuccessful.

Funding for these workovers and for a land acquisition were raised through two private placements: one for 500,000 shares at $0.20 a share early in 1994 and a second for 242,300 shares at $0.25 a share in the fall of 1994.

Mera's major acquisition this fiscal year consisted of eight sections of land (5,120 acres) in the East Darwin gas field. Recent drilling and land activity in this area, together with the installation of a NOVA pipeline, have greatly enhanced the value of Mera's new asset. We are already in the midst of discussions with an industry partner aimed at developing this proven non-producing property.

Mera's shares traded moderately in 1994, reaching a high of $0.28 cents. Fifty-nine per cent (581,000 shares) of our 980,000 freely tradable shares changed hands.

Since the purchase of Mera's producing properties May 1, 1994, our revenues from oil and gas sales have exceeded $200,000 before royalties. Before amortization and depletion our expenses totaled $184,111, leaving a small cash flow deficiency of $2,224. Our net loss after the non-cash amortization and depletion expense was $56,484. The combination of one-time,

1994 At A Glance

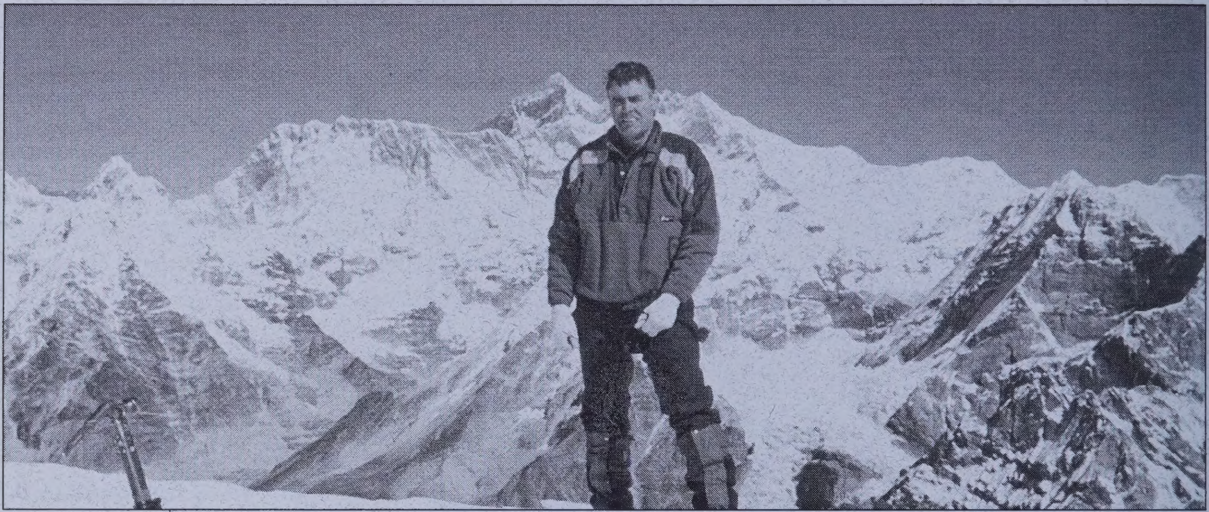
Mera graduates from a JCP to a regularly traded stock on the ASE

Private placements issue 742,300 shares at $ 0.20 to $ 0.25 each

5,120 acres are acquired in the promising East Darwin gas field

Stock is traded at a high of $0.28 each

Mera remains debt-free



Mount Everest in background from summit of Mera Peak

initial start-up costs — including those related to our major transaction — and only a partial year of production are responsible for this loss. We used $349,230 of the $494,021 of equity raised to date for the purchase of oil and gas properties. Most importantly, we finished the year with a working capital of $71,752, a cash balance of $48,052 and NO DEBT!

Mera's production increased moderately during the year. As of January 31, 1995 your company was producing 60 BOPD. This production figure is down from our previously forecasted 80 BOPD due to poor results from our Calmar 8-31 well workover. In addition, low gas prices precluded the tie-in of our Sylvan Lake well.

With the onset of lower gas prices and a poor equity market your board has decided to adopt a more conservative production target for the end of 1995, from 400 to 200 BOPD. This goal will be achieved by bringing our Sylvan Lake Well on stream, and pursuing the purchase of additional properties. Given the flat equity market, your board feels it is more prudent to invest in the acquisition of producing wells, rather than in major drilling endeavors. Should the equity market turn upwards your board will be willing to respond appropriately.

Mera's development continues to move towards "Reachable Goals" and "Peak Performance." As we follow this straight and steady path, I would like to thank our shareholders and directors for their continuing support and patience.

Robert D. McLeay, President
and Chief Executive Officer

March 10, 1995
Calgary, Alberta

Production Report

Calmar

On April 29, 1994 Mera acquired a 100% working interest in 160 net acres of freehold mineral leases in Calmar, Alberta. The company owns and operates four oil wells and two batteries on this property southwest of Edmonton. The light sweet crude oil — an average of 23 BOPD in 1994 — comes from the Devonian "Nisku" formation.

Mera's successful rework of Calmar 13-35 was publicized in APEGGA's THE PEGG publication,

Invention Offers Old Wells New Life

BY SHARON PEARCE

In a mature oilpatch full of sluggish wells, abandoned by "Big Oil" for greener foreign pastures, Bill Groves, P.Eng., could be considered something of a savior.

The Calgary mechanical engineer has come up with a unique well workover system marketed as *Clean Well Tool*. It is so cost-effective at clearing out clogged up wells, small oil and gas operators are beginning to realize the returns they hoped for when they bought the wells from the major players in the first place.

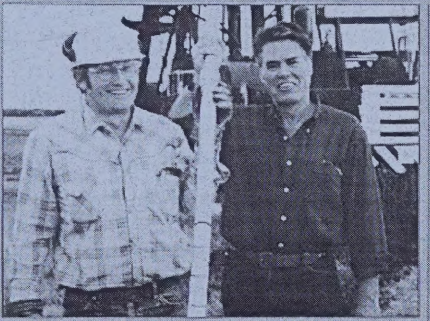
The *Clean Well Tool* is a three-part system which includes an oscillating pump valve that goes downhole inside a 12-foot slotted tube, an ... system and a ...

will clear out just about any type of well bore damage, but admits it's not of much use where there are permeability problems, serious formation flaws or reduced reservoir pressure.

The 1969 University of Saskatchewan graduate uses a unique moving part valve that

JUST THE RIGHT TREATMENT FOR A SLOW MOVING, AILING OILPATCH

more accurately regulates fluid flow rates. This special component generates two-to-three times more energy from the same amount of fluid than the U.S. versions of similar systems. While the American models yield about 150 cycles per second, Mr. Groves says his system produces up to 225 cycles per second downhole. That ... his savings on



Clean Well Developer Bill Groves, P.Eng., (right) and satisfied customer Bob McLeay, P.Geol., of Mera Petroleums Inc. find new hope in old well.

benefit horizontal well operators, who have to stimulate much larger formation sections.

The *Clean Well Tool* is good news for small producers like Mera Petroleums Inc. of Calgary, which depends on old wells for its bread and butter. Without it, president Bob McLeay, P.Geol., says he probably would have abandoned one of his 40-year-old Calmar-area wells. "We looked at selective acid squeezes and frac-ing," he says, "but we didn't think we could get

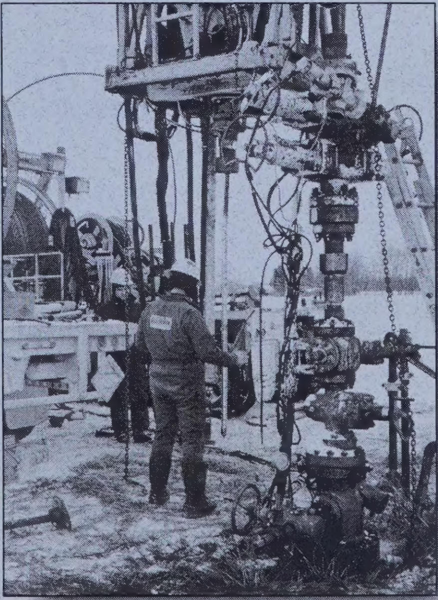
Instead of paying $70,000–to–$90,000 for the usual well stimulation methods, Mr. McLeay invested $17,000 to clean the well out with Mr. Groves' system and to install a new pump and replace some tubing. Production jumped to 28 barrels a day from 1.5 barrels a day initially and settled at about 10 barrels a day. He expects to recoup his investment in two to three months. He also likes the fact that by using filter–produced water, he isn't putting anything

Larger produc... Ascentex Energy ... *Clean Well Tool* ... it easier to more ... pinpoint stimul... long horizontal w... surface systems w... miss," says presider... P.Eng., "*Clean Wel*... fluids to selectively ... portions of the hole ... needed." On one Asc... near Creelman, in so... Saskatchewan, flu... was increased to ... barrels a day, using ... system with a com... water and air. Ov... costs came to $4... $5,700 of which w... *Well Tool*.

After watching ... of various proces... resuscitate fading ... wells in Canada a... East for over two ... Groves, believes he ... just the right treatm... slow-moving, ailing ...

"Some people thin... crazy," he says, "and ... my invention is exact... needed right now." If ... *Clean Well Tool* has a ... up to do. As of the end ... there were an estimate... ... oil and gas wel...

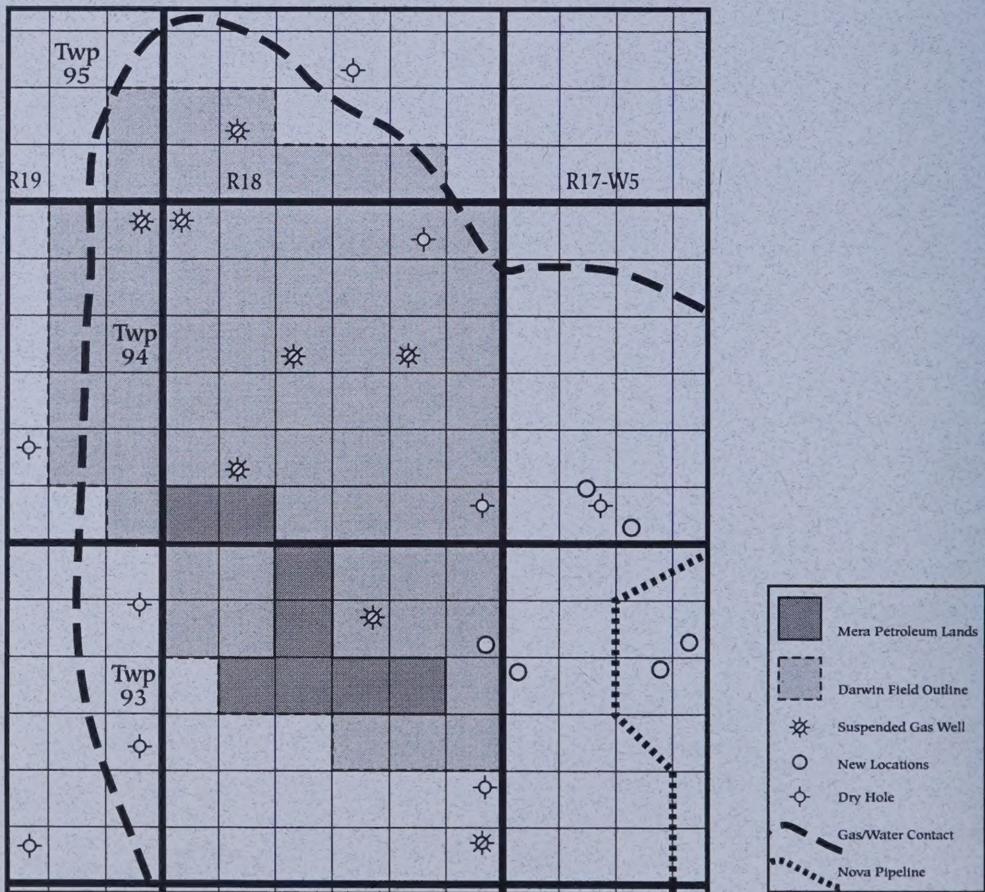
After reworking 13-35 and 8-31 wells, and overcoming some mechanical problems, production was increased to 35 BOPD as of January, 1995. If the productivity continues to improve in 1995, cash net backs will be significantly enhanced because the majority of our operating costs are fixed and should not increase as production volumes increase. Calmar accounted for 53% of Mera's cash flow from production and 48% of its total production in 1994. Mera's average selling price for its Calmar oil in 1994 was $22.94 per barrel. Mera is examining further Calmar area acquisitions.



Sylvan Lake

Mera holds a 23% working interest and a 1.5% GORR on a shut-in gas well in Sylvan Lake, Alberta. After a recompletion in late 1994 using the new "pulse jet" technology, it flowed gas at

rates up to 1.2 MMCF/D. The well stabilized at 300 MCF/D and 8 barrels of natural gas liquids per day. This adds 15 BOEPD to our production, which we hope to tie in to the local facilities once gas prices stabilize. We are also examining a second area well for possible recompletion as an oil producer in 1995.



East Darwin

In mid 1994 Mera acquired 5,120 (3,968 net) acres in East Darwin, which is located north of the town of Peace River. The expansion of NOVA's Wolverine pipeline and recent land and drilling activity in this area (6 new wells licensed in 1995) have greatly enhanced the viability of this prospect. Potential reserves are estimated to be 1 – 2 Billion cubic feet of gas per section and the wells are expected to produce from 300 – 1,200 MCF/D. This property has the potential to greatly impact our company's production and revenue figures. Mera is actively pursuing further lands in this area and is seeking an industry partner to enable the company to begin seismic and drilling operations in the winter of 1995/96.

Auditor's Report

To the Shareholders of Mera Petroleums Inc.

I have audited the balance sheet of Mera Petroleums Inc. as at December 31, 1994 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of operations and changes in financial position of the Company for the year then ended in accordance with generally accepted accounting principles.

M. H. Shaikh Prof. Corporation

Calgary, Alberta
March 10, 1995

Chartered Accountant

Mera Petroleums Inc.

Statement of Operations and Deficit

	Year Ended December 31, 1994	Seven Months Ended December 31, 1993
Petroleum and natural gas sales, net of royalties	$ 180,265	$ –
Interest and miscellaneous income	1,622	1,443
	181,887	1,443
Expenses		
Production	79,503	–
General and administrative	91,029	17,722
Amortization and depletion	54,260	177
Investor relations	13,579	6,739
	238,371	24,638
Net loss for the year	56,484	23,195
Deficit at beginning of year	23,195	–
Deficit at end of year	$ 79,679	$ 23,195
Loss per share	$ (0.02)	$ (.014)

See Accompanying Notes

Mera Petroleums Inc.

Balance Sheet
December 31, 1994

ASSETS

	1994	1993
Current		
Cash	$ 48,052	$ 195,286
Accounts receivable	57,360	2,297
Prepaid expenses	2,734	500
	108,146	198,083
Capital assets (Note 3)	316,371	1,142
Deferred charges	–	6,243
	$ 424,517	$ 205,468

LIABILITIES AND SHAREHOLDERS' EQUITY

	1994	1993
Current		
Accounts payable and accrued liabilities	$ 36,394	$ 14,092
Provision for site restoration costs	11,860	–
	48,254	14,092
Shareholders' equity		
Share capital (Note 4)	455,942	214,571
Deficit	(79,679)	(23,195)
	376,263	191,376
	$ 424,517	$ 205,468

Approved on behalf of the Board:

Director

Philip R. Lawton Director

See Accompanying Notes

Mera Petroleums Inc.

Statement of Changes in Financial Position

	Year Ended December 31, 1994	Seven Months Ended December 31, 1993
Cash provided by (used in) operating activities		
Net loss for the year	$ (56,484)	$ (23,195)
Add non-cash item:		
Amortization and depletion	54,260	177
	(2,224)	(23,018)
Net change in non-cash working capital	(34,995)	11,295
	(37,219)	(11,723)
Cash provided by (used in) financing activities		
Issue of common shares	244,021	250,000
Share issuance costs	(2,650)	(35,429)
	241,371	214,571
Cash provided by (used in) investing activities		
Capital asset additions	(357,629)	(1,319)
Reductions in (additions to) deferred charges	6,243	(6,243)
	(351,386)	(7,562)
Increase (decrease) in cash during the year	(147,234)	195,286
Cash and term deposits at beginning of year	195,286	–
Cash and term deposits at end of year	$ 48,052	$ 195,286

See Accompanying Notes

Mera Petroleums Inc.

Notes to Financial Statements
for the year ended December 31, 1994

1. **Incorporation and operations**

   The Company was incorporated on April 29, 1993 under the Business Corporations Act (Alberta). Initially established as a Junior Capital Pool under the Alberta Securities Commission Policy 4.11, the Company graduated to the Alberta Stock Exchange's regular board upon acceptance of its major transaction.

   The Company is involved in the exploration and development of petroleum and natural gas reserves in Western Canada. Effective April 29, 1994 the Company completed its major transaction with the acquisition of petroleum and natural gas properties.

   Realization of the stated asset values is dependent upon future profitable operations or proceeds from their disposal.

2. **Summary of significant accounting policies**

   a) Petroleum and natural gas properties

      The full cost method of accounting is followed for petroleum and natural gas properties whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical activities, lease rentals on undeveloped properties, the drilling of productive and non-productive wells, and directly related overhead charges.

      Costs are accumulated in one cost centre representing activity in Canada. Total capitalized costs plus a provision for future development costs of proven undeveloped reserves are depleted and amortized using the unit of production method, based on estimated proven oil and gas reserves as determined by independent engineers. For purposes of the depletion and amortization calculation, proven oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

      Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized except where the sale results in a significant change in the rate of depletion and amortization.

      In applying the full cost method of accounting, capitalized costs including provision for necessary future development expenditures less depletion and amortization are restricted from exceeding an amount equal to the estimated undiscounted future net revenues from proven reserves, based on current prices and costs, less the aggregate estimated future removal and site restoration costs net of salvage values, development costs, general and administrative, financing and income tax costs derived from proven reserves, plus the lower of cost and estimated fair value of developed properties. Should this comparison indicate an excess carrying value, a write-down would be recorded.

      Net operating revenue received by the Company between the effective acquisition dates and closing dates of the respective transactions are reflected as a reduction in the purchase price of the related petroleum and natural gas properties.

Notes to Financial Statements
for the year ended December 31, 1994

2. **Summary of significant accounting policies *(continued)***

   b) Future abandonment and site restoration costs

   Estimated future abandonment and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

   c) Joint activities

   Many of the exploration and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

   d) Office furniture and equipment

   Office furniture and equipment is recorded at cost less accumulated amortization, which is provided for on a straight-line basis at 30% for computer equipment and 20% for other office equipment and furniture.

   e) Loss per share is calculated using the weighted monthly average number of shares outstanding. Fully diluted loss per share is not disclosed as the effects of the assumed share purchase options as disclosed in Note 4(b) would be anti-dilutive.

3. **Capital assets**

	1994			*1993*
	Cost	***Accumulated Amortization and Depletion***	***Net Book Value***	***Net Book Value***
Petroleum and natural gas properties and equipment	$ 349,230	$ 40,562	$ 308,668	$ –
Office furniture and equipment	9,718	2,015	7,703	1,142
	$ 358,948	$ 42,577	$ 316,371	$ 1,142

On April 29, 1994 the Company acquired certain petroleum and natural gas properties from a corporation controlled by a director of the Company. The properties were valued at $78,000 as determined by independent engineers and, as consideration, the Company issued 390,000 common shares with a stated value of $0.20 per share. The transaction was effected pursuant to subsection 85(1) of the Income Tax Act whereby the Company and the Vendor elected on an agreed amount of $2,625 as the cost of the properties for income tax purposes. The Company has recorded the properties acquired and the shares issued on acquisition, at $43,446 being an amount net of the potential tax impact of the transaction. The acquisition was effective as of December 31, 1993 and the purchase price was adjusted for net operating revenue as described in Note 2(a).

Notes to Financial Statements
for the year ended December 31, 1994

3. **Capital assets *(continued)***

During the year, the Company acquired certain other petroleum and natural gas properties for a total consideration of $250,000 for which the Company paid cash of $210,000 and issued 100,000 common shares with stated value of $0.40 per share.

4. **Share capital**

a) Authorized

Unlimited number of common shares.
Unlimited number of preferred shares with rights, privileges and conditions to be determined by resolution of the Board of Directors.

b) Issued and outstanding

	Shares	***Amount***
Founder's shares issued for cash	1,083,000	$ 50,000
Initial public offering at $0.20 per share	1,000,000	200,000
Share issuance cost	–	(35,429)
Balance, December 31, 1993	2,083,000	214,571
Private placement at $0.20 per share for cash	500,000	100,000
Issuance of shares for acquisition of petroleum and natural gas properties (Note 3)	490,000	83,446
Private placement at $0.25 per share for cash	242,300	60,575
Share issuance costs	–	(2,650)
Balance, December 31, 1994	3,315,300	$ 455,942

During the year, the Company issued 10,000 shares at $0.25 per share for which consideration of their shares was received subsequent to the year end.

The Company has granted options to purchase 208,000 common shares at $0.20 per share to directors of the Company expiring May 31, 1998. In addition, options to purchase 120,000 common shares at $0.25 have been reserved for the directors, employees and consultants of the Company.

Pursuant to an agency agreement, C.M. Oliver & Company Limited was granted an option to subscribe for 100,000 common shares at a price of $0.20 per share expiring April 7, 1995.

Notes to Financial Statements
for the year ended December 31, 1994

5. **Income taxes**

   a) The Company has incurred income tax losses which are available to offset income from operations to the extent of $79,215 of which $27,254 expire in 2000 and $51,961 expire in 2001.

   b) The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of approximately 44.3% (1993 - 44.3%) to loss before income taxes. The difference results from the following:

	1994	*1993*
Computed expected recovery	$ (25,022)	$ (10,275)
Increase (decrease) in taxes resulting from the following:		
Losses for which no tax benefit is recorded	23,019	12,074
Adjustment and other	2,003	(1,799)
Provision for income taxes (recovery)	$ –	$ –

6. **Related party transactions**

   During the period ended December 31, 1993 the Company issued 1,083,000 common shares to its founder for $50,000.

   During the year ended December 31, 1994, the Company issued 390,000 common shares to a company controlled by a director as consideration for the acquisition of certain petroleum and natural gas properties and related and equipment amounting to $43,446. Office furniture and equipment amounting to $7,000 were purchased from the same company and at December 31, 1994 an account receivable for $1,737 remains outstanding. In addition, $33,106 was paid to directors of the Company for management services.

7. **Comparative information**

   Certain comparative information has been reclassified to conform with the current year's presentation.

Mera Petroleums Inc.

Corporate Information

Directors

Robert D. McLeay, P.Geol
President &
Chief Executive Officer
Mera Petroleums Inc.

Calgary, Alberta

William J. Lawrence
Director of Oil & Gas Ventures for Russia
Foremost Industries Inc.
Calgary, Alberta

Philip R. Lawton, C.A.
Lawton Management Consulting Services
Calgary, Alberta

Donald S. Conn
President,
Triconn Production Systems Ltd.
Calgary, Alberta

Officers

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President &
Chief Executive Officer

William J. Lawrence
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Stock Exchange Listing

The Alberta Stock Exchange
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